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STATE PASS TO USTR PBURKHEAD, JGROVES AND BGRYNIEWICZ

E.O. 12958: N/A
TAGS: ETRD ECON PREL AG
SUBJECT: ALGERIA IMPLEMENTS THREATENED BAN ON PHARMA IMPORTS

REF: 2008 ALGIERS 1003

¶1. (U) SUMMARY: With no fanfare or public announcement, the Algerian government has implemented a ban on the importation of a wide range of pharmaceutical products that are also manufactured in Algeria. The ban, which took effect on January 1, is designed to spur the development of the Algerian pharmaceutical manufacturing sector and to cut the cost of government medical benefits provided to Algerian consumers. The health ministry released a list of chemical compounds for which imported versions are banned, affecting at least 400 international products. Another, shorter list is expected soon. But it is unclear if Algerian manufacturers have the capacity to meet demand, and shortages of key drugs have already been reported. The ban represents another Algerian policy supporting "economic patriotism," and was done in full awareness that WTO members would consider the move counterproductive to Algeria's effort to join the organization. END SUMMARY.

OLD SCHOOL ECONOMICS

¶2. (U) International pharmaceutical manufacturers confirm that Algeria has implemented a ban on the importation of medications that are produced domestically. The ministry of health first announced the government's intent to institute such a ban in late October 2008, and industry sources tell us it became effective January 1 after having been officially published on December 14, 2008. The government's communication minister publicly stated that the goal of the decree was to help spur development of the Algerian pharmaceutical industry, particularly in the generics sector. Industry development is not the only motivation. The government's cost of reimbursing consumers for medications has been increasing dramatically in recent years: according to reported customs statistics, the country imported a volume of pharmaceuticals worth nearly USD 1.4 billion in the first nine months of 2008 alone. The French-language daily Liberte reported on December 7 that the government will save more than 200 million euros in 2009 by limiting its expansive insurance reimbursement plan to domestically produced generics.

EVERYTHING IS BANNED

¶3. (U) The ban took effect without fanfare or public statement, in contradiction to the extensive press coverage

that followed the October announcement of the ban's development. More than 400 known products are affected by the ban. The health ministry listed approximately 180 chemical compounds that may no longer be imported to Algeria, known as international common denominations (DCI in French), covering almost all kinds of medications including antibiotics, analgesics and antihistamines, as well as medications for chronic illnesses including anti-cholesterol and psychotropic medications.

¶4. (SBU) The country manager of a U.S.-based pharmaceutical company told us on January 6 that at least 15 of the firm's products are now blocked from the Algerian market, and orders that were placed before the ban was announced would not be allowed to enter the country. The executive also said that importers, distributors and manufacturers were told by the ministry of health to remove from their annual import lists any product that may fall into one of the categories of banned chemical compounds. Each company submits to the ministry a list of products it intends to import during the calendar year, and the Algerian customs service only allows the importation of products approved by the ministry.

PRODUCE, OR ELSE

¶5. (U) It remains unclear if Algeria has the capacity to produce the volume of pharmaceuticals that consumers have come to expect. Liberte reported that Algerian manufacturers covered only 34 percent of the entire Algerian drug market in 2008, and produced less than 15 percent of medications

considered essential. A small, Arabic-language paper reported on January 4 that 40 drugs were already in short supply in Algeria, including medications for chronic conditions such as diabetes, heart and renal difficulties, and mental illness.

¶6. (SBU) We were told by Algerian drug manufacturers that the health ministry did not seek counsel from the industry before announcing the ban. A representative of an Algerian pharmaceutical firm told us that domestic manufacturers were first contacted by the ministry in mid-November, and each was required to sign a specific production commitment to take effect upon the implementation of the ban. Another domestic company representative told us that if a manufacturer falls below its production commitment, it will lose its licenses to import other medications.

¶7. (SBU) An Algerian drug producer told us in December that he believed the ban would ultimately help increase Algerian companies' domestic market share. But he warned that current capacity was insufficient to meet consumption, and that few firms would be able to meet their production commitments. Members of the pharmaceutical producers association (UNOP) said publicly in December that they knew of firms currently making roughly five million units per year of various medications that had committed to producing 30 million units within the first six months of the ban. UNOP complained that the ministry accepted these commitments without field checks of capacity. Further exacerbating the capacity situation, a U.S.-based drug firm told us January 9 that the company feared its plans to build a plant to manufacture an analgesic syrup -- its first real foray into the Algerian market -- might be delayed because the segment of the Algerian construction industry capable of such projects could not be able to keep pace with the demand created by the ban.

YES WE WANT TO JOIN WTO, BUT THIS IS IMPORTANT
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¶8. (SBU) The government implemented the ban knowing that doing so would run counter to its effort to join the World Trade Organization (WTO). When a visiting delegation of MEPI-funded WTO accession consultants asked health ministry

officials in November about the ban, the officials responded that the policy was not open for discussion and that Algeria maintained the right to implement policies aimed at protecting and expanding key domestic industries such as the pharmaceutical sector.

CUTTING COST ALSO A PRIORITY

¶9. (U) Along with the goal of spurring domestic pharmaceutical production, the government has an interest in reducing the cost of its social insurance program by reigning in the number and type of medications for which it provides reimbursement to consumers. The Algerian social security administration had been reimbursing Algerians for a portion of their drug purchases according to a reference list of chemical compounds. Several American drug companies told us in 2008 that, until the import ban, the reimbursement reference price was the biggest challenge they faced in Algeria, because since 2006 the government had been precipitously reducing the amount it paid for drug reimbursements, usually based on the lowest-price generic. Thus, brand-name imports were steadily being priced out of the reimbursable market.

¶10. (U) Djouad Brahim Bourkaib, a director general at the Ministry of Social Security, Work and Employment, was quoted by Liberte on December 7 as saying that the reimbursement program had been very generous over the years. He said that at its peak, 3200 brands were reimbursable under 1200 international common denominations (DCI), when in reality, only 600 DCI are really necessary. Liberte also reported that the drug reimbursement reference price would again be lowered across a range of products. The same December 14 edition of the official gazette that carried the new list of banned imports also carried an updated reference price list. Liberte further reported that, in the future, only "essential

medicines" would be reimbursable.

COMMENT: ECONOMIC PATRIOTISM WITH A DOSE OF PRAGMATISM
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¶11. (SBU) The future cost-savings for the Algerian government from banning imported brand-name drugs will likely be real and possibly significant, but the same effect could have been had by simply reimbursing only generics whenever available. Ultimately, the pharmaceutical import ban represents another step in the government's reprisal of nationalistic policies that government officials and local press have dubbed "economic patriotism" (reftel). Since Prime Minister Ouyahia took office last June, the government has made a series of tax and investment policy shifts with a stated goal of boosting domestic production or increasing revenue capture. The moves have also provided a means to vilify foreign corporate interests in the run-up to the 2009 presidential elections, and the Algerians make no apologies for the policies' inconsistency with WTO norms.

¶12. (SBU) Just as key ministers have been touting Algeria's lack of economic integration with world financial systems as having saved the country from the global financial crisis, nationalistic economic policies such as the drug import ban are widely praised by both politicians and business leaders, even as both groups call for more foreign investment in Algeria. The investment they seek seems limited, however, to local production with local partners. U.S.-based pharmaceutical companies tell us that with such unpredictability in market regulation, as highlighted by the falling reimbursement reference price and by the import ban, they are not interested in starting or expanding Algerian production for fear of further marketshare and capital investment loss. This message does not seem to be resonating in Algerian policy circles, despite our best efforts to deliver it. Further, while Algeria periodically reiterates

its desire to accede to the WTO, Algerian negotiators often complain about the complexity of the process, and the prime minister recently said publicly that accession is "very difficult, and will not happen tomorrow." The pharmaceutical ban is another indication of Algerian hesitancy to make the necessary trade-offs in its domestic policy to gain membership in the WTO.
PEARCE